DOCUMENT RESUME

ED 178 015 HE 011 936

TITLE The Report of the Advisory Committee on Shareholder Responsibility with Respect to South Africa Shareholder Responsibility.
INSTITUTION Harvard Univ., Cambridge, Mass.
PUB DATE 24 Mar 78
NOTE 54p.; For related document see HE 011 937

EDRS PRICE MF01/PC03 Plus Postage.
DESCRIPTORS Administrative Policy; Blacks; Business; Educational Economics; *Ethics; Expenditures; Higher Education; *Investment; *Political Issues; Politics; *Private Financial Support; *Racial Discrimination; School Industry Relationship
IDENTIFIERS Divestiture; *Harvard University MA; *South Africa

ABSTRACT

Issues pertinent to Harvard University's holdings in companies with operations in South Africa are examined in this report to determine if Harvard should adopt any changes in its investment policy regarding U.S. companies in South Africa. The history of U.S. involvement in the South African economy is reviewed and both U.S. and South African regulations governing these business relationships are explained. South Africa's apartheid system is discussed and initiatives taken by Harvard relative to this situation are outlined. It is noted that current Harvard policy prohibits the University from investing in South African corporations or corporations that have a majority of their operations in South Africa. Harvard's relationship with companies conducting a minority of their operations in South Africa are examined. It is recommended that American corporate interests reassess their impact on South African society taking into account the fundamental human rights question raised by the government's apartheid policy. Criteria for behavior of companies that decide to stay in South Africa are proposed. The direct and indirect consequences of divestiture are examined in detail. Arguments for and against withdrawal are presented as the committee was unable to reach a consensus. The inherent uncertainty of consequences in South Africa of any massive action by American companies is emphasized. It is recommended that the issue of divestiture be examined on an individual company basis. Also discussed is the issue of U.S. bank loans to South Africa. A summary of recommendations and a timetable for implementation are included. Appended are: a list of relative bibliographic materials; an assessment of the financial costs of divestiture; and information supporting complete economic withdrawal from South Africa. (SF)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED178015

HARVARD UNIVERSITY

ADVISORY COMMITTEE ON SHAREHOLDER RESPONSIBILITY

THE REPORT OF THE ADVISORY COMMITTEE ON SHAREHOLDER RESPONSIBILITY WITH RESPECT TO SOUTH AFRICA SHAREHOLDER RESPONSIBILITY

Professor Henry B. Reiling, Chairman

Professor Francis M. Bator
Professor William Doebele
Ms. Julie Fouquet
Ms. Catherine Henn
Mr. William H. Knight, Jr.
Mr. Guido R. Perera, Jr.
Mr. Carlton M. Smith
Professor A. Michael Spence
Mr. Anthony Thacher
Mr. Steven Tracy
Ms. Ellen Williams
Mr. Charles F. Woodard

Mr. Lawrence F. Stevens, Secretary

Mr. George Siguler, Treasurer's Office

This report was unanimously approved by the Committee and sent to the President and Fellows of Harvard College on March 24, 1978

HS 011 936

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Harvard Univ.

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

THE REPORT OF THE ADVISORY COMMITTEE ON SHAREHOLDER RESPONSIBILITY WITH RESPECT TO SOUTH AFRICA SHAREHOLDER RESPONSIBILITY

I. Introduction

President Derek Bok established the Advisory Committee on Shareholder Responsibility[1] in 1972. Its mandate has been to advise the Harvard Corporation[2] concerning the social and ethical implications of the choices it must make as a major shareholder in many companies.

The ACSR, or the Committee, began meeting this academic year on November 3--earlier than usual--in response to the urgent charge placed upon it by the Harvard Corporation that we consider what policies Harvard should follow with respect to its investments in companies doing business in South Africa. The trend of events in that country had produced a growing concern and indignation, at Harvard and elsewhere. The University, as a shareholder, would have to make some important choices. As much or more than any other issue, the presence of American business in South Africa engages the Committee's responsibility to advise the Corporation with respect to the exercise of its investment powers "in ways that are consistent with and enhance the general welfare."[3]

The 1971 statement that defines the policy also instructs that, in executing it, Harvard must act responsibly and realistically taking into account the cost, both to itself and to the companies, of collecting the relevant information, the inherent limitation of much of what can be collected, and the intrinsic difficulties of diagnosis and evaluation.

In response to the charge placed upon us by the Corporation:

the Committee met twenty-five times during this past winter. At five of those meetings, we received testimony and engaged in discussion with persons expert about South Africa;

---

[1]The Advisory Committee on Shareholder Responsibility is referred to in the balance of this report as the "ACSR" or the "Committee."

[2]The Harvard Corporation, also known as the President and Fellows of Harvard College, is referred to in the balance of this report as the "Corporation" or the "University."

[3]See letter from President Pusey to Dean Dunlop as quoted in Harvard University press release dated May 7, 1971.

at the request of the Southern Africa Solidarity Committee (SASC), we held a four-hour hearing on December 13, 1977, at which representatives of the SASC, other student associations and others presented their views;

several members of the Committee attended a meeting sponsored by the Harvard Management Corporation to hear a report by the South African specialist of the Investor Responsibility Research Center, Inc. (IRRC);

several Committee members attended a meeting in New York to hear the Reverend Leon Sullivan discuss the application of the "Sullivan Principles" to companies doing business in South Africa; and

the Committee studied and reviewed the documents listed in Appendix A attached hereto.

Our assignment has been to consider what Harvard as a shareholder can and should do with respect to companies active in South Africa. We decided, early, to confine our attention to the problem raised by companies that have a significant (albeit perhaps minor in proportion to sales) involvement. We decided, also, that we could not resolve all the South Africa connected issues in time for this report. We believe we have addressed some of the most important questions, but more work will have to be done. South Africa will remain on the Committee's agenda.

II. U.S. Business Relationships with South Africa[1]

A. Past and Present U.S. Involvement in the South African Economy

Although there has been a substantial increase in U.S. business activity in South Africa during the last fifteen to twenty years, U.S. business interests have been present in South Africa for almost 100 years. Initially, American concerns became interested in South Africa because of its abundance of natural resources, particularly diamonds and gold. Later, additional factors such as the supply of cheap labor, favorable government policy regarding low interest loans and repatriation of earnings by foreign firms, apparent economic stability, and higher than average rates of return on investment combined to make South Africa an increasingly attractive location for U.S. and other foreign investments.

Beginning in late 1974, however, the combined effects of increased oil prices, general worldwide recession, decreased gold prices, and the recognition of the potentially unstable political situation as a result of apartheid led to a general softening of the South African economy and a significant deficit in its international balance of payments. This economic slowdown appears to have produced several results.

- The annual rate of return on investment for U.S. firms dropped dramatically from about 16 percent in 1974 to 8 percent in 1975 and 13 percent in 1976.[2]
- The rate of annual increase in U.S. direct involvement dropped to about 5 percent in the period from 1974 to 1976 as compared to an almost 20 percent annual increase from 1972 to 1974.[3] Based on available information, it appears that most of the recent increase in U.S. direct investment is represented by the retention of earnings rather than infusion of new capital.

---

[1] The material in this section was developed primarily from reports of the Investor Responsibility Research Center and the report of the Subcommittee on African Affairs of the U.S. Senate Committee on Foreign Relations titled, U.S. Corporate Interests in Africa, January, 1978.

[2] U.S. Business and South Africa: The Withdrawal Issue; Special Report 1977-D; Investor Responsibility Research Center; Washington, D.C., 1977. p.6.

[3] Ibid., p.6.

- The annual rate of repatriation of South African earnings by U.S. firms has risen substantially from a rate of about 40 percent before 1974 to approximately 65 percent by 1976.[4]

- However, while other indicators of U.S. investment were steady or increasing only slightly, U.S. bank loans to South Africa more than doubled in the 1974 to 1976 period to $2.2 billion by the end of 1976.[5]

According to year end 1976 figures, the most recent figures the Committee has examined, U.S. involvement in South Africa is substantial though, with the exception of bank lending, has shown little, if any, real growth since the end of 1974. The U.S. Department of Commerce has estimated the book value of total U.S. direct investment (excluding loans) in South Africa at $1.6 billion. This is equal to about 37 percent of U.S. direct investments in Africa and 1.2 percent of U.S. direct investments world-wide. This figure represents approximately 17 percent of foreign investments in South Africa (Great Britain is far and away the largest foreign investor in South Africa with the equivalent of $5.25 billion invested there).[6] More than half of Fortune's top 100 companies are represented in South Africa and U.S. firms provide a broad variety of goods and services to the South African economy. As an example, we understand that American firms are responsible for 70 percent of computer sales, 43 percent of the petroleum market and 23 percent of auto sales.[7] According to the estimates of the Investor Responsibility Research Center, there are now approximately 350 U.S. firms with a direct subsidiary or affiliate in South Africa. In addition, over 6,000 U.S. firms have some form of trade relationship with South Africa.[8] U.S. companies currently employ approximately 100,000 workers in South Africa, 70,000 of whom are classified as African (black). These

---

[4]Ibid., p.6.

[5]Ibid., p.8.

[6]Ibid., p.6.

[7]Corporate Activity in South Africa; Investor Responsibility Research Center; Washington, D.C.; Analysis E, p. 3; Februray 1977.

[8]U.S. Business and South Africa: The Withdrawal Issue; op.cit.; p.6.

figures represent 0.4 percent of both the total population and the black population.[9] For the vast majority of U.S. companies active in South Africa, operations there represent less than one percent of corporate assets. However, these operations may be quite large by South African standards both in amount of assets and number of employees. For example, a number of U.S. subsidiaries (e.g., Caltex, Union Carbide, Mobil, Ford, and General Motors) are large enough in assets that they would rank among the top 50 companies on the Johannesburg Stock Exchange if listed there.[10] By the end of 1976, the United States was South Africa's largest trading partner ($1.26 billion in sales to South Africa and $.46 billion in imports from South Africa); second largest direct foreign investor ($1.6 billion), and the supplier of almost thirty percent ($2.2 billion) of South Africa's foreign debt ($7.6 billion).[11]

B. South African Regulations of U.S. Business Activities

The most pervasive effect of South African regulation of U.S. business is the collection of laws which define many aspects of the relationship between employer and employee. Among these, the Industrial Conciliation Act of 1956 and the Bantu Labor Relations Regulations Act of 1973 prohibit black workers from forming government certified (registerable trade unions and hence entering into collective bargaining agreements on an industry basis. In addition, both the Apprenticeship Act and the Mines and Works Act place serious limitations on the job categories available to non-whites. Finally, the Factories Act and the Shops and Offices Act contain provisions which permit the government to enforce the separation of work facilities by race although there is some evidence to suggest that the emphasis on such separation has been somewhat relaxed.

At present, most U.S. activity in South Africa is based on a free trade system with little government trade interference (an exception is in the petroleum industry where, under South African law, the government can require that a certain percentage of refinery products be reserved for sale to the government). However, the South African National Supplies Procurement Act

---

[9] Ibid., p.5.

[10] Ibid., p.6.

[11] Ibid., p.3.

which was passed in 1970 and activated in November, 1977, has the potential to exert a critical influence on the business policies of all firms in South Africa. This Act authorizes the South African Minister for Economic Affairs to require any company operating in South Africa to manufacture and deliver to the government any product determined to be essential to the national security. Failure to supply the product on request could result in seizure of the product or seizure of the facilities by the government to manufacture the product. While the Committee is unaware of any instance in which the law has been applied against a U.S. firm, we are aware of the potential harm that this law can cause both in terms of corporate interference and its more insidious implications for supplying products for the enforcement of the government's policies of apartheid.

C. U.S. Government Policy Regarding Business in South Africa

The U.S. State Department's current policy is one of neither encouraging nor discouraging investment in or trade with South Africa by American companies. However, because the trend of recent events in South Africa has been toward more repression and increased denial of civil liberties, many concerned people who previously had supported nearly unrestricted U.S. involvement in South Africa have been forced to reexamine their beliefs. In turn, the U.S. government has been forced to reexamine its policies with respect to U.S. involvement in South Africa, an examination which has its most concrete manifestation in a report to the Committee on Foreign Relations of the U.S. Senate entitled, U.S. Corporate Interests in Africa. We find the following quote from this report to be of particular significance.

> U.S. Economic interests in South Africa may not be decisive in bailing South Africa out of its economic woes. But there is no question that it has been pivotal in directly assisting the South African Government during its worse economic difficulties in the past, and, if permitted, could do so in the future. International credit provided the margin of funds needed by South Africa in the 1974-76 period to finance its military buildup, its stockpiling of oil, and its major infra-structure projects in strategic economic sectors such as transportation, communications, energy, and steel production, all of which are related to security needs. Collectively, U.S. corporations

operating in South Africa have made no significant impact on either relaxing apartheid or in establishing company policies which would offer a limited but nevertheless important model of multinational responsibility. Rather, the net effect of American investment has been to strengthen the economic and military self-sufficiency of South Africa's apartheid regime, undermining the fundamental goals and objectives of U.S. foreign policy. [12]

---

[12] U.S. Corporate Interests in Africa; Subcommittee on African Affairs of the Committee on Foreign Relations, United States Senate; Washington, D.C., January, 1978.

III. Premises

Questions involving ethics, politics, and the University are both complicated and controversial. In the course of our discussions, some general propositions have suggested themselves that make it easier to identify the boundaries of agreement. Since they color the treatment of issues in the balance of this report, we wish to make them explicit.

1. The preeminent task of Harvard remains the advancement of learning.

2. It follows that the preeminent objective of Harvard's investment policy is to support the University in the pursuit of that task.

3. The University's obligations as a corporate citizen are not fully discharged by working toward excellence in its primary mission. As President Pusey put it, Harvard has an obligation "to act as a good citizen." There are circumstances when considerations of good citizenship supersede economic calculation.

4. Business corporations, too, have responsibilities of citizenship that extend beyond their principal purposes.

5. Taken together, 3 and 4 above imply that, when the policies or actions of a company in the Harvard portfolio are not consonant with good citizenship, the University has an obligation to advocate that such policies and actions be changed.

6. Judgment about what constitutes good corporate citizenship is inherently difficult, and also subjective, up to a point. However, as a shareholder, Harvard cannot escape making its own judgments.

7. The South African government's policy of apartheid is morally repugnant.

8. The situation in South Africa is not stationary. Events and new information will call for further evaluation, by this Committee, and by Harvard. So might changes in United States foreign policy.

9. Harvard is a community of many estates and thus, as a matter of prudence, positions should be adopted with caution, restraint, and tolerance for all views.

10. As the trustee of the University's funds, the Corporation is bound both as a matter of law and of moral obligation to use those funds for the purposes for which they were intended.

IV. Apartheid: A Special Case Warranting Harvard Initiatives Including Actions Involving Its Portfolio

In investigating the question of whether Harvard should adopt any changes in its investment policy regarding U.S. companies in South Africa, we have examined whether the political, economic and social conditions constitute a special situation of sufficient magnitude to set it apart from other countries that have policies and customs with which we may disagree. We have identified at least five factors which we believe, taken together, make the apartheid practices of the Republic of South Africa a special case warranting a response by the University including portfolio related initiatives.

1. The situation in South Africa involves a human rights issue of first importance and is now of increasing significance to peace in Africa.

2. It is almost impossible for Americans not to react with special concern to repression based on race.

3. The racial repression in South Africa is methodical and pervasive. It has become intitutionalized by the legislative, executive, and judicial branches of government and is fundamental to the customs and traditions of the politically dominant segment of South African society.

4. As a consequence of the institutionalized nature of South African repression, United States multinational corporations are parties to racial repression as a condition of doing business in South Africa.

5. By any reasonable standard, the trend in South Africa is in the direction of greater rather than less repression.

V. Harvard's Initiatives to Date

The subject of South Africa's apartheid system has been of concern to individual members of the Harvard community for many years, although the first instance we found of its formal recognition as a special case for University attention was in the report of the Committee on University Relations with Corporate Enterprise in January, 1971. This report stated:[1]

> "We can give a few examples of investments that might best be avoided: . . .investments in South African corporations -- although, even there, arguments can be marshalled on the other side and there is the problem of drawing a line. . . .when it comes to investing in American corporations that do business in foreign countries, a policy line would be even more difficult to draw."

The recommendations of this report served as the basis for the current Harvard policy which prohibits the University from investing in South African corporations or corporations which have a majority of their operations in South Africa.

The Corporation in its 1972 statement regarding the presence of Gulf Oil in Angola defined in general terms the special initiatives which they believed American companies should take in southern Africa:[2]

> "Our decision to urge Gulf management to take certain steps beyond disclosure stems from our conviction that for Gulf and every other American corporation doing business in southern Africa, there is a special obligation to serve as a constructive force within repressive societies and to provide maximum opportunity for non-whites. This obligation applies equally in our view to companies doing business in nations governed by colonial policies, such as Angola, or by apartheid policies, such as South Africa."

With regard to proxy issues since 1973, the Corporation has voted on twenty-one resolutions addressing various aspects of corporate operations in southern Africa. Several observations on the pattern of voting can be made.

- Consistent with U.S. foreign policy, Harvard has supported all resolutions requiring withdrawal of U.S. corporations from Namibia.

---

[1] "Report of the Committee on University Relations with Corporate Enterprise," Harvard University; Cambridge, Mass., 1971.

[2] "Statement by the President and Fellows of Harvard College on the Gulf Oil Question," Harvard University, April 19, 1972.

- In most cases, the Corporation has supported resolutions calling for disclosure of information regarding South African operations. The exceptions to this general rule are characterized by the company requested by the resolution but in a pattern of distribution somewhat different from that required by the resolution.

- The Corporation has voted both for and against resolutions calling for non-expansion in South Africa. In these cases the differentiating factor appears to have been an evaluation of the company's labor policies. In cases where, according to information from the Investor Responsibility Research Center, the labor practices have been progressive, the resolutions have not been supported. Where the labor practices were questioned, the resolutions were supported.

There have been a number of instances having nothing to do with portfolio companies where Harvard's statements or activities have expressed judgments critical of South Africa's policies.

- The honorary degree awarded to South African author Alan Paton in 1971 recognized the problems of South Africa: "The words and deeds of this brave and compassionate man inspire determined fresh efforts for freedom and justice in his own beloved country and in other troubled lands."

- Similarly, the honorary degree awarded in 1975 to Helen Suzman, a South African Member of Parliament, was also a statement about the overwhelming social inequities: "In her nation the voice of the voiceless; the example of her unflagging courage steadfastly proclaims the possibility of universal justice."

- Another example was Harvard's Nieman Foundation award of a Visiting Nieman Fellowship to Donald Woods, the editor of South Africa's East London Daily Dispatch who was banned in South Africa because of his writing on the disturbances in Soweto.

- The telegram from President Derek Bok to Prime Minister John Vorster in October, 1977, speaks for itself as a statement of opposition to the South African government's policies:

"I am deeply shocked by the arrest of Harvard alumnus Percy Qoboza, the banning of his newspapers and his imprisonment, apparently for the next 9-1/2 months without any charges being filed against him and without any prospect of a trial. I knew Mr. Qoboza as a Nieman Fellow at Harvard University in 1975-76. I have admired him as a distinguished journalist and have been kept informed of his courageous struggle for multi-racial justice since his return to South Africa. Mr. Qoboza's imprisonment is a travesty of justice under normal civilized standards. It also poses a serious threat to his life, given the fact that he suffers from hypertension. For reasons of humanity and justice, I strongly urge that the South African government reconsider its actions in this case and release Mr. Qoboza at once."

VI. Harvard's Relationship with Companies Conducting a Minority of Their Operations in South Africa

A. Introduction

This section of our report examines the array of possible actions available to Harvard University as a shareholder in companies with a small proportion of their operations in South Africa. It begins by setting out some criteria that bear on whether or not it is appropriate for a company to remain in South Africa, proposing some guides of conduct for companies that ultimately do choose to remain there. It examines the reasons for and possible consequences of Harvard's divestiture of holdings in these companies, as a means of influencing corporate policy. It then explores the implications of Harvard's continued investment in these companies. Finally, the ACSR recommends a series of actions for Harvard to take with respect to portfolio companies.

Harvard is a community of many estates: alumni, administrators, faculty, staff, and undergraduate and graduate students. The number and diversity of these groups demand, as a matter of prudence, that positions be adopted with more caution, restraint, and tolerance for all views and competing considerations than would be the case were the shareholder to be a single individual who had only to examine his or her own conscience and intellect in reaching a decision. Similarly, as the trustees of money given to Harvard by others to support the educational mission of Harvard, the Corporation must be aware of the legal and moral obligation to use that money for the purposes for which it was intended.

B. Companies Should Assess Their Impact on South African Society

It is not the function of this Committee to articulate a code of ethics for U.S. corporations. Nevertheless, the ACSR is committed to the proposition that portfolio companies have an obligation to operate both here and abroad within the bounds of widely held moral principles. It is our opinion that the case for singling out South Africa is compelling; that U.S. companies who choose to remain in South Africa, on balance, be a constructive force in facing apartheid; and that the burden rests on those firms to demonstrate that their presence there is constructive.

Accordingly, the ACSR believes that all American corporate interests in South Africa should reassess their present commitments there, taking into account the fundamental human rights question raised by the government's policies of apartheid. The key aspects of this evaluation should center around the following points:

1. the extent to which the product line or services provided by the company directly supports the enforcement of apartheid by the South African government or its public corporations;

2. the degree to which the company is prepared, through its labor practices, wage structure, and employment policies to operate in a manner which provides equal opportunities to employees of all races;

3. the extent to which the company is willing to support the implementation of new policies which are designed to ameliorate the effects of apartheid even when such implementation may run counter to South African custom and test the limits of South African law;[1] and

4. the ultimate compatability of maintaining high corporate standards and continuing operations in South Africa within the constraints of South African law.

---

[1] While the ACSR recognizes that a company is required to obey the laws of all countries in which it does business, our investigations indicate that, despite the existence of numerous South African laws implementing apartheid, these laws may be ambiguous or permit exceptions for cause shown. Consequently, a company operating in that country can sometimes be flexible in interpreting or responding to these laws. Moreover, many corporate practices prevalent in South Africa are not mandated by law but are reflections of government policies and/or local customs. Thus, the ACSR recommends that companies operating in South Africa:

1) identify those laws and customs which, while by themselves are not directly involved in the work relationship, impact on workers travel, housing conditions, relationships with their families, and similar relationships of importance to them; and
2) actively sponsor and implement ways of breaking down the barriers to full participation by the company's non-white workers in the South African economy and society where South African laws do not clearly mandate particular living and working arrangements.

The ACSR believes that companies operating in South Africa should stop those activities which directly support apartheid. In some cases, this might entail leaving South Africa entirely. A case in point is furnished by the Polaroid Corporation which a short time ago decided to suspend its direct operations in South Africa because of the use by the government of Polaroid film in the manufacture of the passbooks used by the authorities to monitor and control the movement of non-white South Africans.

C. Criteria for Behavior of Companies Staying in South Africa

Any company that decides to stay in South Africa should adhere to the following:

1. Employment Practices and Policies. The ACSR believes that companies that operate in South Africa should follow employment practices that will ameliorate the effects of apartheid with respect to their own employees, even where such action impinges on profitability. Specifically, we believe that all companies operating in South Africa should implement the principles first proposed in 1977 by the Reverend Leon Sullivan, a director of General Motors Corporation, and to date endorsed by at least sixty-one corporations. Implementation of these principles would require a company to:

a. eliminate segreation of the races in all eating, comfort, and work facilities;

b. institute equal and fair employment practices for all employees;

c. provide equal pay for all employees doing equal or comparable work for the same period of time;

d. initiate and develop training programs that will prepare, in substantial numbers, blacks and other non-whites for supervisory, administrative, clerical, and technical jobs;

e. increase the number of blacks and other non-whites in management and supervisory positions;

f. improve the quality of employees' lives outside the work environment in such areas as housing, transportation, schooling, recreation and health facilities.

In addition, as suggested in a letter, dated November 7, 1977 from Hugh Calkins, a member of the Harvard Corporation, to fifty-seven portfolio companies, the ACSR believes that companies operating in South Africa should:

g. establish the lowest level of wages at a level sufficiently high to provide a generally acceptable adequate living wage;

h. adopt a policy which permits non-white workers to bargain collectively on matters relating to wages and conditions of employment.

2. Disclosure of Activities in South Africa. Mr. Calkins' letter also asked that companies provide a continuing reporting mechanism to permit interested shareholders to assess for themselves the progress being made by a company with respect to its employment policies and practices. Amplifying that suggestion, the ACSR believes that a company continuing to operate in South Africa should provide:

a. a description of its product lines and services available in South Africa;

b. a report on the company's sales to the South African government and its public corporations, including both sales volume and a description of products provided or services rendered;

c. a report on the company's labor practices and policies in South Africa and the extent to which they meet the criteria for such practices and policies as set forth in 1 above, including in that report the following:

i. a statistical summary of the wage and job classification structure of the company's labor force at all levels, indicating the relationships of average wages, racial composition, and job classification levels;

ii. a statement describing the efforts made by the company to achieve equitable racial representation within job categories;

iii. a statement describing the efforts being made to establish wage parity within job classification levels across racial groups;

iv. a statement describing the relationships between the company and any labor unions which represent any employees, including a statement describing the company's policy toward recognition of non-white trade unions;

v. a statement describing the benefits available to employees, including an explanation of any benefits which are available to members of one race but not to another;

vi. a statement describing the company's efforts, if any, to make educational opportunities available to non-white employees and their families; and

vii. a statement describing the company's policies and practices with respect to non-white migrant labor, including the company's policy regarding the families of such workers;

d. an annual income statement and balance sheet specifically covering the company's South African operations.

The Committee recognizes that reporting of this nature greatly exceeds the disclosure requirements of United States law. However, we believe adequate public disclosure is necessary:

1. to meet the burden, noted above, which a company remaining in South Africa has of demonstrating that its presence there is a constructive force;

2. to provide the information which only the companies themselves have;

3. to demonstrate that it is possible to take steps to counteract some of the effects of apartheid; and

4. to generate public pressure on companies whose policies fail to take into account the human rights of the South African people.

D. Harvard's Options: Continued Investment or Divestiture

The Committee believes that the Corporation has the following options with respect to any securities which it holds in its portfolio:

1. sell for financial reasons;

2. sell for non-financial reasons ("divestiture");

3. retain, but advocate that a company continue an operation only upon meeting certain conditions;

4. retain, but advocate that a company discontinue an operation ("withdrawal"); or

5. retain and advocate no modification in the company's current operations.

Options 1 and 5 listed above are the normal and most frequent options which the Corporation exercises with respect to its portfolio securities. Our assignment has not been to consider those two options, but to consider options 2, 3, and 4 with respect to the portfolio companies having operations in South Africa.

E. Divestiture

With respect to divestiture, the ACSR analyzed the following:

1. the direct consequences thereof for the University;

2. the direct consequences thereof for the divested company;

3. the indirect consequences thereof for the divested company, other shareholders and the general public; and

4. the arguments for divestiture.

1. Direct Effect on the University. Divestiture for non-financial reasons has, as its most substantial direct effect, significant financial costs to the University. These costs are difficult to estimate accurately, but fall into four general areas. First, there are the costs involved in trading securities; second, if a significant number of shares are sold, their sale could depress their selling price; third, there are costs of lost opportunities in not being able to invest in certain companies, costs that are difficult to quantify and depend very much on fluctuation in income and cost per share; fourth, there is a cost, difficult to quantify, associated with the manner in which the University might be forced to treat the receipt of gifts in the form of securities of divested companies. Finally, while we believe that there is general agreement within the Harvard community that apartheid is abhorrent, the selection of large scale divestiture as a course of remedial action is far more controversial. Consequently, it could alienate

certain groups or individuals on whom the University must rely for future support, financial or otherwise. The Committee has attempted to quantify these various costs of divestiture in Appendix B. It is sufficient here to note that the costs to the University might be small if one company's stock were sold and would depend largely on the company, the market price of its securities, and the number of shares held by the University. However, if a general divestiture of all companies with interests in South Africa were attempted, the combination of costs could be enormous and damaging to the University's ability to carry out its educational responsibilities.

2. Direct Effect on Divested Companies. Divestiture has several potential effects on divested companies.

a. While divestiture underscores Harvard's strong disagreement with corporate policy it also terminates Harvard's status as a shareholder in the company, thereby depriving the University of the special right and responsibility an owner has to advocate a position.

b. Divestiture necessarily transfers ownership of Harvard's stock to different shareholders. There is no basis for supposing that these shareholders would be more concerned than Harvard or better able to advocate a more responsible South Africa policy.

c. Extensive divestiture is likely to place only a temporary downward pressure on the stock's market price, its magnitude and duration depending on the size of Harvard's holdings relative to the number of outstanding shares, its method of sale, and the propensity of other investors to follow Harvard's lead and sell for moral reasons. Unless the selling pressure is both substantial and sustained, however, it is likely that the stock's price would return to its original level.

d. If divestiture actually resulted in a permanently lower market price of a company's common stock, it would have two consequences. First, to the extent that management compensation includes stock options, the value of such options is likely to be reduced. Also, while most new investment currently is financed from retained earnings and non-cash charges, those corporations that must obtain additional capital through new securities offerings could suffer

an increase in the cost of capital. However, we believe in most cases these consequences would not be sufficient to alter corporate policy.

In summary, we believe that direct economic impact on divested companies is unlikely to be significant or long term.

3. Indirect Effects of Divestiture. The special character of divestiture for non-financial reasons lies in the fact that moral considerations override the investment decision, and it may reflect an express decision to sustain a self-inflicted injury (see Appendix B). Another feature of non-financial divestiture is its notoriety. Indeed, the features of moral override and self-inflicted injury are themselves subsidiary to non-financial divestiture's major purpose, media coverage and resulting publicity. The divested company's management and shareholders are only secondary audiences for this publicity. The primary audience consists of both black and white South Africans and the general public both here and abroad. Because divestiture to emphasize an ethical position is intended to draw attention to an issue, and because the thoughtful will look through rhetoric to substantive effects and alternatives, the divestor has an obligation to explain carefully the reasons for its action.

As a direct result of the publicity that may accompany divestiture for ethical or other non-financial reasons, it is reasonable to expect two additional indirect effects to occur.

a. Effects on the other investors. One objective of non-financial divestiture is to encourage public debate on the issues of apartheid. In addition, focused attention on the issue might have the effect of inducing other investors to divest thereby providing a larger impact on a company than Harvard's action alone would have.

b. Effects on the general public and the divested company. The public may be encouraged to use such means as are at its command, including economic pressure on the divested company, to persuade a firm to modify its South African policies.

4. Proponents Arguments for Divestiture. Proponents of divestiture, in general, argue that the American corporate presence in South Africa serves to strengthen the economic and military self-sufficiency of the South African government, both directly through the interactions between the corporations and the government, and indirectly through the overall positive effect that the corporations have on the South African economy. In addition, some proponents of divestiture argue that the issue of improving United States corporate policies in South Africa is irrelevant since the oppressive conditions are so much a part of South African life that no United States complicity of any kind should be permitted. They argue that because most companies have not indicated their intention to leave, divestiture of the securities is the only responsible alternative available to shareholders. There are additional arguments.

a. Inability to influence corporate policy. Responsible advocacy is a waste of time and energy because corporations have already shown through their past actions their unwillingness to respond to shareholder pressure.

i. Prior tokenism. Corporate managements have long been on notice through discussions with shareholder groups (particularly the church groups) regarding the evils of apartheid, but have done little to respond constructively to apartheid. Given this history, there is no reason to believe that they will act constructively now or in the future.

ii. Shareholder ineffectiveness. Without management support, shareholder resolutions in general and particularly resolutions advocating changes in corporate policy toward South Africa have virtually no chance of receiving a sufficient vote to result in changes in corporate policy.

iii. Corporate intransigence. Even if there were broad shareholder support for ending apartheid, corporate managements would not heed it due to an unyielding corporate focus on the maximization of profits to the detriment of other goals.

b. Gesture of moral support. Divestiture is justified on the basis of its value as a gesture of moral support for the blacks in South Africa.

c. Disassociation from complicity in an immoral situation. Even if divestiture produced no direct effects, it would still be incumbent upon Harvard to divest itself of stock in companies which have holdings in South Africa in order to "cleanse" Harvard of any association with practices which it finds to be ethically or morally unsound.

5. ACSR Position on Divestiture. We have considered carefully the positions in favor of divestiture and recommend, as a general rule, that the University not divest itself of holdings in companies doing a small proportion of their business in South Africa. Our basic reason for this recommendation is our belief that, in general, divestiture provides inadequate proportionality between cost and effectiveness.

Our investigations persuade us that the act of divestiture by Harvard alone is unlikely to result in financial consequences to the divested company of sufficient magnitude to force a change in policy. Further, even considering the possible ripple effect on other investors as a result of Harvard's divestiture, we can only speculate on whether Harvard's ability to persuade others to follow its lead would be sufficient to produce a long term financial effect on the stock of the divested company. Indeed, as we suggested earlier, even if Harvard were able to cause a long term decline in the price of a company's stock, this alone would not necessarily be of financial consequence to the company and, by divesting, Harvard would have lost its special right and responsibility as an owner to advocate changes in the company's policies.

We concur with its proponents that divestiture might be interpreted as a sign of moral support for black South Africans, but must recognize that it could also be very damaging to the funding of Harvard's educational programs. It is our belief that the University has available to it many other effective means of advancing the cause of black South Africans as discussed in this report. With respect to making Harvard's moral position clear to the general public, examples include President Bok's telegram of support for Percy Qoboza when he was arrested last October and the Nieman Foundation's offer of its Visiting Fellowship to Donald Woods, the South African journalist who escaped from South Africa while under a banning order last December.

Finally, we also agree that under some circumstances, as our recommendations with regard to bank stocks make clear, divestiture may be an appropriate response of the University to a company's complicity in apartheid. However, we do not believe that it is possible for the University to "cleanse" itself of all relationsips with South Africa through divestiture. The fact that over 300 United States companies are directly involved in South Africa and an additional 6500 or more companies engage in some form of trade relationship indicates the difficulty which would be faced in trying to invest only in the securities of companies which have no involvement in that country.

It is our recommendation, therefore, that divestiture be restricted to those occasions where management and shareholders have shown by their actions or statements an intransigence in adopting policies advocated by Harvard or to those occasions where management policy has demonstrated direct and substantial support of apartheid as we found in the case of the banks. Whatever position the Harvard Corporation ultimately adopts, the ACSR unanimously recommends further that because of its inherent ambiguity, any act of divestiture for other than financial reasons be accompanied by a very carefully articulated statement explaining Harvard's rationale, its objectives, and its alternatives.

In an effort to affect apartheid through its dealing with portfolio companies, the University must be vigilant that it does not violate basic standards of fairness with regard to other interested parties. In branding a divested company morally deficient and seeking to inflict economic injury on that divested company, the rudiments of equity require that one not resort to the hurtful action until fair procedures have been followed. Just as most individuals confronted with policy differences on a major matter would not resign from an organization with great fanfare and condemnation until he or she had ascertained after energetic efforts at persuasion that the disagreement was essentially irreconcilable, so Harvard as an institution should not with fanfare and condemnation disassociate itself from a company until a good faith effort at persuasion has occurred.

F. Harvard's Responsibilities When a Continuing Shareholder

The choice is not one between American companies being in South Africa or not being there. They are there now and the issue of remaining there as

against withdrawal raises questions not answered by a preference for American non-involvement in apartheid. Although some members of the Committee are persuaded that all American companies should withdraw immediately, the Committee as a whole is unable to reach a consensus in support of that position. However, with respect to companies that are now in South Africa, the Committee is agreed that they should remain there only if they are able to meet a set of conditions that together might ameliorate the consequences of apartheid.

Withdrawal is a complicated issue. Proponents of across-the-board withdrawal argue variously: apartheid in South Africa is sufficiently entrenched that it is unlikely to be influenced by outside action; since the United States multi-nationals must abide by host country laws just as foreign companies do here, they observe that apartheid is so embedded in South African law and conduct that attempts to implement progressive policies are doomed to failure; economic growth and industrialization, to which the United States could contribute, can only lead to a strengthening of the government's position and a further entrenchment of the policies of apartheid; the United States companies continuing to operate in South Africa could influence American foreign policy not to jeopardize the value of United States investments in that country; withdrawal would result in a significant slowdown in the transfer of needed sophisticated technology to the South African economy; the employment and labor policies of companies themselves have been of highly uneven quality and there is limited evidence that these policies will soon become significantly more progressive; and even if United States firms have to adopt more progressive policies, the small number of black employees who would be affected by such policies (about 0.4% of the black population) is too small to have a significant effect on the government's policies.

There are some proponents who believe that American economic withdrawal will help to produce the necessary conditions for economic recession or collapse and a consequent collapse of the present government. Some proponents of withdrawal note that most of the responsible black leaders in South Africa have already advocated this policy and argue that it is incumbent upon United States firms to accept the recommendations of the leaders of the majority of the South African poeple. Finally, there are a number of people who believe that the time for evolutionary change has passed in South Africa

and that violent revolution is the only way to eliminate apartheid; consequently, they believe that Harvard's efforts as a shareholder and any United States corporations' possible subsequent efforts in South Africa would be a case of too little too late.[2]

Those who advocate continued economic involvement in South Africa do so in part because they believe that economic expansion by itself creates a need for increased manpower to maintain growth and that a consequence of the need for increased manpower will be an eventual breakdown of racial barriers as more blacks and other non-whites are needed to fill positions of increasing responsibility and skill. In addition, many believe that an industrial operation requiring substantial fixed plant and equipment, when viewed in the long term, should be regarded as an asset to the economic viability of future as well as present governments. (The example of Gulf Oil Corporation in Angola is a case in point. Had the Gulf refinery been dismantled in 1972 as some had demanded, it would not now be one of the key sources of foreign exchange to the new government.) Some believe that substantial progress by United States firms has already been made in labor and employment policies and that, by example, they have influenced the practices of other enterprises in South Africa. Some argue that the United States government is in a better position to influence the South African government because of the presence of United States firms in that country. Finally, some believe that, on balance, United States firms can have a more positive influence on the conditions for non-white South Africans through responsible action within the country rather than by withdrawing.

In weighing the merits of the above arguments for and aginst withdrawal--and the somewhat separate question of University advocacy--many members of the Committee have been troubled by the inherent uncertainty that attaches to the consequences in South Africa of any massive action by American companies. Most of us doubt that small action will make much difference. However, massive actions could conceivably trigger large effects, with impact on the

---

[2]Further background information supporting the position of complete economic withdrawal is provided in Appendix C. This material was prepared by a Committee member who felt particularly strongly about this issue.

lives of people in South Africa. We recognize that "neutrality" is not an option. Continued presence too has consequences. Some of us are puzzled as to whether the legitimate desire not to be associated with patent evil provides a sufficient justification for advocating, from a position of safety, actions by others that might in time damage the lives of people two continents away.

In view of the Committee's lack of a consensus on the issue of immediate withdrawal of United States companies from South Africa, and recognizing the uncertainties involved in assessing the possible consequences of any actions we might advocate, the Committee believes that the issue of withdrawal must be evaluated on a company-by-company basis, taking into account the company's internal policies, the place of the company's product or service in the South African economy, the relationship of the company's products or service to the system of enforcing the policies of apartheid, and the pace with which the South African government is moving to eliminate apartheid.

G. United States Bank Loans to South Africa

During the last two years, shareholder resolutions have been proposed to a number of United States commercial banks advocating the cessation of direct loans to the government of South Africa or to any of the country's nationalized industries. Also, several groups within the Harvard community have been particularly critical of the role of United States banks in supporting apartheid through loans to the South African government. Consequently, the Committee considered it appropriate that the initial application of its recommended procedures and policies should be to the question of United States bank involvement in South Africa.

Based on information furnished to the Committee from a number of sources, the Committee found the following observations to be of particular significance. First, while the level of United States corporate involvement in South Africa has remained relatively constant since 1975, the loan volume of United States banks within South Africa has virtually doubled over this same period. Second, it is apparent that the vast majority of these loans have been extended directly to the South African government and its public corporations rather than to the private sector. Finally, the United States bank lending to South Africa is substantial in relation to total United States investment in that country.

At the end of 1976,United States bank loans to South Africa aggregated $2.2 billion, exceeding the total of all other direct United States investments by approximately $0.6 billion.

Because the government and its agencies are the primary recipients of international loans, the ACSR has focused its attention on the general strategies being followed by the government in seeking credit and allocating resources. According to a report furnished to the Senate Subcommittee on African Affairs by the Congressional Research Service, the government of South Africa has, for the last five years, engaged in a "political-economic policy of 'strategic investment'." The report states further that "The strategic investment policy is evident in the sharp increases in (1) public corporation investment, (2) the defense budget, (3) defense and oil imports and (4) government consumption and expenditures. International credit was critical to this investment. . . .Government public corporations are the key element in the strategic investment policy and major borrowers in the international capital market."[3]

In its analysis, the Committee has become convinced that while individual loans for specified projects may not, by themselves. be seen as contributing directly to the government's policies of apartheid, the aggregate effect is one of permitting the government to continue to develop an economic and political system based on apartheid.

The Committee also examined the extent of United States bank presence within South Africa, observing that United States banking activities there are not labor intensive and that the aggregate employment of South African residents by United States banks is not significant. It was the Committee's conclusion that, even were these banks to follow the employment and disclosure practices advocated by the Committee, the positive impact thereof would be greatly outweighed by the negative implications of substantial loans to the existing government and the consequent support of the policies of apartheid.

---

[3] U.S. Corporate Interests in Africa. Report of the Committee on Foreign Relations: U.S. Senate; January, 1978.

In summary, the Committee has adopted the following position with respect to United States bank loans to South Africa:

1. United States banks should not grant new loans to the South African government or its public corporations;

2. United States banks should not renew outstanding loans to the South African government or its public corporations, nor should they extend or modify the maturity schedules of such loans as may presently exist;

3. While we recognize that local banking regulations may require United States banks operating in South Africa to hold some South African government securities, under no circumstances should such banks voluntarily make additional purchases of such securities.

Because of its strong opinion regarding bank loans, the ACSR recommends that the University refrain from investing in banks which, to the University's knowledge, continue to engage in the practices listed above. To this end, the University immediately should take whatever steps are necessary to obtain the information needed to make a clear determination regarding the level of each bank's compliance with the Committee's position. Further, we recommend that the University not invest in banks which refuse the University's official request for information regarding present loans to the government of South Africa.

H. Implementation of Policy

In order to accomplish the objectives discussed in this section of our report, with respect to companies other than banks, the ACSR believes that the University should develop a scheme of graduated actions which include the following actions.

1. Communicating with the mangement of portfolio companies regarding the University's position on South Africa. These communications might take several forms and be either written or oral.

2. Monitoring progress of companies by soliciting, collecting, and evaluating information from companies, from IRRC and through monitoring mechanisms that might be established by or in conjunction with other concerned parties. To the extent possible, the ACSR should be a part of the review process.

3. Escalating its level of advocacy beyond contacts with management to include such actions as jointly sponsoring or initiating shareholder resolutions.

We reemphasize our premise that the South African situation is an evolving one and our belief that the University should be responsive to the trend of events both in that country and directly affecting it. Nevertheless, a tentative timetable will be useful and we therefore recommend the following:

Spring, 1978. Harvard should vote its shares in support of shareholder resolutions which are consistent with the positions recommended in this report. Concurrently the University should communicate the substance of this report to portfolio companies and such others as it thinks appropriate.

By November 30, 1978. The University should evaluate available information to determine the degree of adherence to its established criteria.

Winter, 1978-1979. The University should formulate a policy for individual companies consonant with the evolution of events in South Africa. It is the ACSR's current posture that were the

University to find that a company was in substantial non-compliance with regard to disclosure of information or with regard to its activities in South Africa, the Corporation should initiate or support a shareholder resolution advocating the termination of the company's South African activities.

VII. Summary of Recommendations

1. The ACSR recommends that Harvard continue its previously held position of not investing in South African companies or companies which have a majority of their interests in South Africa.

2. The ACSR recommends that the divestiture of securities by Harvard be restricted to those occasions where management and shareholders have shown by their actions or statements an intransigence in adopting policies advocated by Harvard; but the Committee also agrees that under some circumstances, as the recommendations with regard to bank stocks make clear, divestiture may be an appropriate response of the University to a company's complicity in apartheid.

3. Although some members of the Committee are persuaded that all American companies should withdraw immediately, the Committee as a whole is unable to reach a consensus in support of that position. However, with respect to companies that are now in South Africa, the Committee is agreed that they should remain there only if they are able to meet a set of conditions that together might ameliorate the consequences of apartheid. The ACSR recommends, therefore, that an analysis of this issue be conducted on a company-by-company basis considering the information available from a number of sources including the reports called for below.

   A. The analysis regarding withdrawal must take into account the company's internal policies, the place of the company's product or service in the South African economy, the relationship of the company's product or service to the system of enforcing the policies of apartheid, and the pace with which the South African government is moving to eliminate apartheid.

   B. Companies should adopt and implement an aggressive program to recognize and develop the economic and related social rights of their South African employees and their families as discussed in Section VI.

   C. Companies should adopt a policy of reporting on the extent and nature of their activities according to the specifications discussed in Section VI of this report.

D. Companies considering net new investment should be prepared to demonstrate to shareholders that the evidence is clear and convincing that by the criteria set forth herein, the investment is justified.

Accordingly, the ACSR recommends that the University develop a scheme of graduated action as outlined in Section VI of this report to continue to persuade portfolio companies to make the changes in their policies and activities that we believe should be adopted.

4. The ACSR believes that U.S. banks should operate according to the following conditions with respect to South Africa:

   1. United States banks should not grant new loans to the South African government or its public corporations.

   2. United States banks should not renew outstanding loans to the South African government or its public corporations, nor should they extend or modify the maturity schedules of such loans as may presently exist.

   3. While we recognize that local banking regulations may require United States banks operating in South Africa to hold some South African government securities, under no circumstances should such banks voluntarily make additional purchases of such securities.

   Accordingly, the ACSR recommends that the University refrain from investing in banks which, to the University's knowledge, continue (after receiving notice of the University's position and having an opportunity to respond) to engage in the practices listed above. Investments, for this purpose, should include debt as well as equity securities. Further, we recommend that the University not invest in banks which refuse the University's official request for disclosure of information regarding present loans to the government of South Africa.

5. While the Committee's activities have been limited to portfolio related questions, we have encounted several promising educational options; accordingly, the ACSR recommends that the Corporation identify and investigate the advisability and feasibility of initiatives within the framework of its educational programs.

APPENDIX A

Selected list of materials considered by the Advisory Committee on Shareholder Responsibility.

1. "Report of the Committee on University Relations with Corporate Enterprise;" Harvard University; Cambridge, Mass., 1971.
2. "Report of the Ad Hoc Committee on Princeton's Investments in Companies Operating in South Africa"; Princeton University; Princeton, New Jersey, 1969.
3. "U.S. Business and South Africa: The Withdrawal Issue"; Investor Responsibility Research Center; Washington, D.C.; November, 1977.
4. "Labor Practices of U.S. Corporations in South Africa"; Investor Responsibility Research Center; Washington, D.C.; April 1976.
5. "South Africa: What is to be Done"; Clyde Ferguson and William R. Cotter; Foreign Affairs; January 1978.
6. "American Investment in South Africa"; Meyer Feldberg; University of Cape Town; Cape Town, South Africa; May, 1977.
7. "U.S. Opposition to American Business Involvement in South Africa"; Meyer Feldberg; University of Cape Town; Cape Town, South Africa; no date.
8. "Exclusion of Investments in Securities of Corporations with Assets within the Republic of South Africa"; Stanford University; Stanford, California; October, 1977.
9. "Asking for Trouble in South Africa"; George Ball; Atlantic Monthly; October, 1977.
10. "U.S. Corporate Interests in Africa"; Report of the Subcommittee on African Affairs to the Committee on Foreign Relations of the United States Senate; Washington, D.C.; January, 1978.

The above list is intended to be representative of the materials considered by the Committee. In addition to the mentioned articles, the Committee studied several additional documents from South Africa, reports submitted by the Southern Africa Solidarity Committee, and a seemingly endless list of newspaper and magazine articles. It should be noted also that many Committee members have done a substantial amount of outside research through reading and conversations.

APPENDIX B-1

The Financial Costs of Divestiture

This appendix assesses the costs to the University of a policy of divesting itself of securities in companies conducting a minority of their operations in South Africa. The range of divestiture possibilities goes from that of a single company or particular industry to all portfolio companies doing business in South Africa. It is obvious that as the scope of divestiture expands, the costs do also. In quantifying our analysis, we have dealt for illustrative purposes with the extreme case, i.e., divestiture of all companies with operations in South Africa. We have attempted to identify assumptions and provide data so that the reader can approximate the costs of alternative divestiture strategies. All computations are based on the portfolio as it stood in October, 1977. Our analysis has benefited from access to similar reports produced at Princeton and Stanford. We have also had the cooperation of the Harvard Treasurer's Office. The ACSR, however, is solely responsible for the views expressed.

The costs of divestiture can be divided into four categories:

1. Commissions
2. Effects of Transactions on Market Prices
3. Donations[1]
4. Long run Investment Costs

Prerequisite to considering each of the above is the task of identifying those companies with South African activities. The report, U. S. Corporate Interests in Africa, prepared by Senator Dick Clark's Subcommittee on African Affairs in January, 1978, identified 260 individual firms with operations in South Africa from a list of 312 corporate names appearing on a 1976 list

---

[1] In the body of this report, this cost was divided into two components (see page 19): (1) the cost associated with the possible alienation of donors; and (2) the cost associated with having to handle the securities of companies with South African operations in a manner different from other gifts. A problem associated with the second cost is the possibility that a strict policy of divestiture would forbid the University from even accepting certain securities. A related problem involves the disposition of the security if receipt is permissible; occasionally, because of the terms of the gift or the registration requirements of Federal securities law, the stock cannot be sold. In order to handle more conservatively the cost of divestiture and because a restriction on sale is such an infrequent event, we have chosen merely to identify these problems rather than to quantify their costs.

prepared by the U. S. Consulate General in Johannesburg. The Investor Responsibility Research Center in Washington, D.C. has estimated the number of U.S. firms in South Africa to be about 350. Thus, while no definitive list exists, the best available information indicates that there are approximately 300 U.S. firms with South African operations. These companies and those identified from other sources are sometimes hereinafter referred to as MOSA companies, meaning those U.S. companies conduducting a Minority of their Operations in South Africa.

We were able to identify 54 of the 179 companies in the equity portion of Harvard's portfolio as MOSA companies. Harvard's equity holdings in such companies was $314 million out of a total equity portfolio of $746 million or 42 percent of the dollar value of Harvard's equity holdings.

It is of some interest to examine the general operating and stock market characteristics of the MOSA companies. The large multinational firms are heavily represented in this group. Of the largest 50 firms in the Standard and Poor's list of 500 companies (S&P 500)[2], 29 have operations in South Africa. These companies account for less than 2 percent of those listed on the New York Stock Exchange but they represent approximately 12 percent of the average daily trading volume on that exchange. Of the companies identified by various sources as having operations in South Africa, the Stanford study identified 111 that appear in the S&P 500. While companies with South African operations represent slightly over 20 percent of the companies in the S&P 500, they represent approximately 46 percent of the total market value of that index.

For 40 major U.S. industry groups, Table 1 gives the fraction of companies in the industry and the fraction of the industry's market value accounted for by companies with operations in South Africa. For six industries, virtually all the equities in the industry group would be excluded from the Harvard portfolio under a broad policy of divestiture. They are automotive, chemicals, drugs, electrical equipment, office equipment, and international oils. In addition, companies with operations in South Africa represent a substantial fraction of the market value of many of the other industry groups.

---

[2]The S&P 500 is a generally used standard for market comparisons.

TABLE 1

	Industry	Companies in S.A./ Companies in Industry	Percent of Industry Capitalization Excld.
1.	Aerospace	5/9	69.25
2.	Auto parts - Accessories	6/15	49.73
3.	Automotive - cars & trucks	5/7	96.97
4.	Beverages	3/13	17.04
5.	Building - Forest products	1/6	44.57
6.	Building - Materials	4/22	28.14
7.	Chemicals	8/16	83.49
8.	Communication - Telephone	0/5	0.00
9.	Consumer Durables	2/9	19.56
10.	Consumer - Household Products	1/6	11.55
11.	Consumer - Other non-durable	4/8	75.20
12.	Containers	1/11	8.67
13.	Drugs	10/15	86.25
14.	Electric Equipment	3/7	81.42
15.	Electronics	3/12	35.96
16.	Food - pkg. & Process	7/28	35.66
17.	Lodging & Restaurants	0/11	0.00
18.	Machinery - General	6/22	74.15
19.	Machinery - Special	4/14	60.46
20.	Media - Audio Visual Print	3/20	10.76
21.	Metals - Alum. & Copper	1/8	11.76
22.	- Misc.	2/20	14.54
23.	- Steel	4/9	70.84
24.	Office Equipment	7/9	96.08
25.	Oil Service & Equipment	0/10	0.00
26.	- Domestic	4/12	44.15
27.	- International	5/6	86.85
28.	Paper	2/8	22.99
29.	Retail sales	0/27	0.00
30.	Textile - Prods. & apparel	1/15	25.86
31.	Tobacco	0/4	0.00
32.	Misc.	2/20	53.73
33.	Finance - Banks	3/16	34.28
34.	- Insurance	1/17	16.52
35.	- Other	1/7	6.02
36.	Transportation - Air	2/6	21.19
37.	- Rail	0/10	0.00
38.	- Truck	0/4	0.00
39.	Utilities - Electric	0/22	0.00
40.	- Natural Gas	0/14	0.00
	TOTAL all Industries	111/500	34.67

*S.A. = Republic of South Africa

1. Commissions

Harvard would have to sell 4.95 million shares to divest itself of all its MOSA stock. Because of the size of Harvard's individual holdings, the commission rates for these trades would be below those available to individual investors. It is estimated that the University can buy or sell shares at an average cost of 10¢-15¢ per share. Thus, the commission cost of replacing the 4.95 million shares with others would be between $990 thousand and $1.485 million, or in round figures, a million to a million and a half dollars. The commission cost of divesting a single company and reinvesting the proceeds would be 10¢-15¢ per share multiplied by the number of shares involved. It is highly unlikely that divestiture for nonfinancial reasons would conveniently coincide with a judgment to divest for financial reasons. (To the extent that there is any overlap, the above estimates would be reduced accordingly.) Consequently, commission costs should be viewed as incremental, one time costs, incurred at the time of sale and new purchase.

2. Effects on Market Prices

Harvard's holdings are substantial. One cannot, therefore, assume that it can enter the securities market as a buyer or seller without having an effect on market prices. The impact on market prices depends on three factors: (1) the magnitude of the transactions, (2) the speed with which the sales or purchases are undertaken and, (3) whether or not it is widely known that Harvard is selling or buying stock.

The effects on market prices of Harvard's selling either all $314 million worth of MOSA equity or some lesser amount and then buying other shares to replace MOSA equity are a matter of judgment. It is not uncommon for Harvard to hold shares in a company equal to five days of trading volume on the New York Stock Exchange. Thus, its presence in the market as a seller or buyer would be noticed if Harvard divested over a short period of time. Princeton, whose portfolio is smaller, estimates that they would lose one percent of the market value of the equities in selling and another one percent in buying. They also noted that these costs would be higher if their selling were widely known or noticed because of unusual trading volume. Stanford estimated the cost to be 12.5¢-18.7¢ per share. They noted the cost could be significantly higher. In addition to this one time market impact on the sell and buy, Stanford further argued that

there would be an additional, ongoing cost because the portfolio would be concentrated in fewer stocks. Stanford judged this increased cost on ordinary turnover to be 12.5¢ per share each year.

Harvard's portfolio of MOSA stocks is valued at $314 million. Thus, for every percentage point lost in the transaction, the cost to Harvard is $3.14 million. Estimates by analysts suggests that if the stock were sold over a period of six to twelve months, in secrecy, it is not unreasonable to expect that the cost could be be kept down to a total of roughly 1.5 percent on the sale and reinvestment, or $4.7 million. If the sales were to be accomplished in six months or less the cost could be as high as five percent or $15.7 million. And, of course, if the sales were anticipated by the market, the costs could be higher.

3. Donations

Harvard receives gifts from corporations and individuals. A large fraction of the gifts from individuals are in the form of securities. To ascertain the proportion of MOSA securities as a percent of total individual stock gifts, two recent fiscal years were assessed. In the year July, 1976 to June, 1977 Harvard received securities gifts of $14.97 million of which $4.7 million were in securities of MOSA companies. In 1972-73, the total securities gifts were $21.2 million of which $7.82 million were in MOSA securities. Therefore, Harvard's experience with individual security gifts suggests that MOSA companies represented 30 to 35 percent of total security gifts. The impact of a policy of divesting MOSA security on the propensity of individuals to make gifts in those securities, alternative securities, or cash is quite uncertain. Clearly some risk exists. At the level of recent security gifts (roughly $14 million per year), if Harvard lost all the MOSA security gifts and received no substitute, the costs would be roughly $4.5 million per year. Alternatively, if only 25 percent of such gifts were lost the annual cost would be $1.13 million per year. The ACSR thinks it reasonable to anticipate the loss of half the gift that would otherwise have been made in MOSA securities should a broad policy of divestiture be adopted. Based on historic data the result would be a revenue loss of $2.25 million per year. A less extreme divestiture policy would produce lower annual costs. Our inclination is to view these costs as 50 percent of the annual gifts of the particular security or groups of securities.

Total corporate gifts to Harvard have ranged between $5.8 million and $9 million per year for the last ten years. These gifts are largely in cash. The list of corporate donors over a ten-year period included $14.9 million in gifts from MOSA companies. On an annual basis, the total would be roughly $1.5 million. As in the case of individual gifts, the net impact of a policy of divestiture on the propensity of donors to make these gifts is very uncertain. For the calculations of total costs, the ACSR is comfortable with the judgment that we will lose half the gifts from divested companies. The cost would be $0.7 million per year.

4. The Long Run Costs of Not Investing in Companies with Operation in South Africa

The most difficult costs to quantify are those of not being able to invest over the long run in the equities of MOSA companies. Part of the difficulty resides in the fact that conflicting views exist regarding the behavior of capital markets and portfolio theory. Some analysts and scholars argue that over long periods of time, investors cannot expect to achieve a return above the average for the market as a whole. Others believe that with the appropriate types of research, returns above the market average can be achieved. We have attempted to assess potential costs under both theories.

a) The Efficient Market Theory

Under efficient market theories - those underlying the conclusion that one cannot, over time, outperform the market - diversification is a key element in one's portfolio strategy. Exclusion of all or some MOSA securities would reduce Harvard's diversification. Excluding MOSAs would reduce the so-called Beta (a measure of the degree to which market movements affect the price of securities) on the Harvard portfolio from its present 1.00 to only 0.97. The total risk on the equity portfolio (a measure of the magnitude of price fluctuations of the stock relative to the magnitude of market price fluctuations over a given historic period: market risk plus so-called residual risk) would drop very slightly from its present 1.01 to 1.00. But the residual risk (the amount of risk that can be eliminated through diversification) measured as a percentage of the market risk, increases from nine percent in the present portfolio to 25 percent were MOSAs to be excluded and the funds reinvested on a pro rata basis in the remaining securities. Since in theory the only risk the investor is rewarded for taking is market risk (the capital markets would not rationally

reward one for taking a needless risk, that is, a risk that can be eliminated via diversification), the reduction in the market risk with the MOSA companies excluded will result in a reduced expected return. The dollar cost of excluding MOSAs is found by multiplying the reduction in the portfolio's Beta (i.e., the percentage reduction in exposure to market risk) times the estimated expected return to the investor who is willing to absorb all the market risk. The reduction in the portfolio's exposure to market risk is three percent. The estimated expected return to absorbing the full market risk is 8.5 percent per year. (Over the last 50 years the 10.5 percent combination return from dividends and appreciation on common stock has provided an average return approximately 8.5 percent per year greater than the two percent average return provided by treasury bills.) Therefore, the expected return on the portfolio with MOSA companies excluded is estimated to be 0.26 percent (3 percent times 8.5 percent) lower than it would have been with the MOSA companies in.

The preceding estimate of 0.26 percent is based on a pro rata investment of the proceeds from the MOSA sales into the securities that remain. With a major restructuring of the portfolio, an improvement of the diversification might be achieved. This would lower the cost of divestiture. However, there would be commission costs and possible impact on market prices as the transactions were effected. Because of the cost and complexity of determining what the portfolio changes would be and because of the major investment policy decisions involved in such a redeployment, the ACSR has not attempted to measure the one-time cost of this redeployment. We merely note as a qualitative point that one-time transaction costs of the character discussed under 1 and 2 above, but computed this time on the non-MOSA portion of the portfolio, would be substituted for the annual income loss.

b) Active Management Theory

Embedded in this theory is the judgment that active management based on appropriate research can, over time, achieve returns above the market average. The majority of market professionals adhere to at least mild forms of this theory. It is the philosophy by which Harvard presently manages its portfolio. Accordingly, it is appropriate that the active management theory be given greater weight than the efficient market theory in estimating the costs of excluding some or all MOSA securities.

An assessment of historical returns is the best, albeit an imperfect, method of judging the credibility of the active management theory and the reduction in average return that would result from excluding all or some MOSA companies. Relevant studies of actively managed portfolios comparable in composition to Harvard's have already been undertaken at Princeton and Stanford. The extensive Princeton study of 1968 compared the return from its MOSA companies over a long period of time to the return from the balance of the market. Princeton found[3] that over a fifteen year period up to July 1, 1968 the average annual return in dividends and appreciation from its portfolio companies with operations in South Africa, was fourteen percent. The average annual return from all stocks reported on the S&P Compustat tape except its 40 MOSA holdings was 11.3 percent. Using this historical performance, Princeton took the view that exclusion of the MOSA stocks would reduce the average return on the 32 percent ($127 million) of its portfolio then in MOSA stocks by 2.7 percent. They reported a resulting dollar cost of $3.5 million per year assuming the differential returns continued in the future.[4] Following this line of reasoning, Harvard's annual loss would be approximately $6.5 million per year since its comparably constructed equity portfolio is roughly 1.9 times as large as Princeton's.

Stanford's 1977 study found that its fund manager had consistently earned superior returns over the prior eight years and that in 1976 the dollar value

---

[3]The committee preparing Princeton's study was chaired by Burton G. Malkiel, a respected scholar in the area of capital markets and portfolio theory.

[4]Princeton provided the following warning and explanation with regard to its rationale:

> It would not be correct to say that since the returns from the designated list were significantly higher over a past fifteen year period that such will necessarily be true of a future fifteen year period. Past returns cannot be used as a reliable guide to future returns. Nevertheless, because successful companies will generally want to market their products world-wide, it is likely that the best investments that Princeton can make, now or in the future, will probably have some operations in southern Africa. In other words, the types of companies that are somewhat involved in southern Africa are precisely the most aggressive, innovative, and growth-minded multinational companies. Thus, there may well be a systematic relationship between the expected profitability of an investment, and the likelihood that the company will operate in all parts of the world including southern Africa. To the extent that these corporate characteristics can be expected to affect future returns, altering the composition of the portfolio might well have significant long-term deleterious effects on the yield from Princeton's endowment funds.

of that superior performance had been $8.3 million. Without specifically quantifying the relative performance of MOSAs versus the remainder of its portfolio, Stanford observed that systematic exclusion of these companies would deny the portfolio manager investment options and make comparable future superior performance much more difficult.

Princeton did an effective job of dealing with the long-term historic performance of MOSAs; there would be limited utility in replicating such a study for the Harvard portfolio. Stanford's study documents that at least over short and intermediate periods of time, active portfolio management can provide superior returns. Stanford also properly identifies the implications for a successful practitioner of the active management theory of foreclosing it from individual companies and industries. Our approach is basically to build on these studies. We have already noted that under the Princeton rationale Harvard's annual revenue loss would be be $6.5 million per year. Regarding the Stanford study, we shall, in the discussion which follows, cast their approach into a longer time period and more general setting while attempting conservatively to quantify the future implications of excluding MOSAs.

There are two steps in the ACSR's variation on the Stanford analysis: first, a determination of the possible increase in return that superior active management might provide over a long period of time; and second, a determination of the reduction in that superior return reasonably attributable to excluding MOSA companies. With regard to step one, academic studies disclose no examples of money managers who can dramatically outperform the market over long periods of time.[5] On the other hand, some evidence exists of consistently superior results ranging up to an incremental two percent per year.[6] When these insights are combined with the investment results of the Stanford study and the superior management results reported to us by the Harvard Management Company, we conclude that Harvard's present practice of active management represents a realistic possibility of outperforming the market on a long-term basis by up to two percent per year on equity, assuming that one can invest in roughly the full array of large public companies.

---

[5] A summary of the conflicting views and an extensive bibliography can be found in an article by J. Michael Murphy; "Efficient Markets, Index Funds, Illusion, and Reality"; The Journal of Portfolio Management; Fall, 1977.

[6] Ibid.

Quantification of the future effect of excluding MOSAs is difficult. One reasonable approach is to think in terms of the percentage of the market to which Harvard would be denied access. For a portfolio of Harvard's size, investments must necessarily be concentrated in companies with large equity capitalizations as judged by market price if one is to have a potentially meaningful impact on overall performance while preserving liquidity. This means that for all practical purposes Harvard must invest in companies represented in the S&P 250 and the S&P 500. The market value of the S&P 250 represents roughly 90 percent of the market value of the S&P 500 while the S&P 500 represents roughly 67 percent of the value of all equities listed on the New York Stock Exchange. As pointed out earlier, MOSAs tend to be large multinationals which represent a disproportionately large percent of market surrogates such as the S&P 500 -- indeed 29 of the top 50 and thus a meaningful percentage of the S&P 250 -- and a disproportionately large percent of daily stock trading volume on the New York Stock Exchange.

Since all of Harvard's equities including its 50 MOSAs tend to be S&P 250 or S&P 500 companies and since, according to the Stanford study, the 111 MOSAs included in the S&P 500 represent 46 percent of the total market value of that index, prohibiting Harvard from investing in those 111 companies forecloses it from roughly 46 percent of the universe of equity investments available to it. It seems reasonable to the ACSR to conclude that an effective practitioner of active protfolio management would, where foreclosed from 46 percent of the periodic investment opportunities and with a resulting greater concentration in the remaining investment possibilities, experience a 46 percent lower return from active management than otherwise. The possible long-term return from active management is, as discussed, two percent per year. Therefore, a 46 percent reduction is 0.92 percent per year. On an equity portfolio of $742 million it is clear that any policy that reduces the potential average return on the equity position of the portfolio has an average cost of $7.42 million per year per percentage point reduction in the average return. A 0.92 percent reduction in this figure per year is $6.83 million.

In the ACSR's judgment a reasonable estimate of the annual dollar loss over a long period of time on an actively managed portfolio of Harvard's size is approximately $6.75 million per year ($6.83 million based on the ACSR's

variation on the Stanford study or $6.5 million per year derived by analogy to the rationale and findings of the Princeton study). Juxtaposing these numbers to those derived under the efficient market theory the range becomes $1.8 million (efficient market theory) to $6.75 million (active management theory).

5. Summary of Costs

The following table summarizes the range of costs for each of the categories discussed above:

	Range of Costs	
	Low	High
One Time Costs		
Commissions	$1.0 M	$1.5 M
Short Run Price Effects	$4.7 M	$15.0 M
Total One Time Costs	$5.7 M	$16.5 M
Annual Costs		
Donations	$3.0 M	$3.0 M
Long Run Lost Return	$1.8 M	$6.8 M
Total Annual Costs	$4.8 M	$9.8 M

As this table shows, the total one time costs are estimated to be in the range of $5.7 to $16.5 million and the total longer run or annual costs are estimated to be in the range of $4.8 to $9.8 million per year.

To place these figures in perspective, the estimated maximum one-time cost of $16.5 million is roughly equivalent to the cost to Harvard of constructing the entire new athletic facilities project and greater than the cost of the new Kennedy School of Government by more than 50 percent. Similarly, the estimated maximum annual cost of $9.8 million per year is approximately equivalent to the combined annual operating expenses (based on 1976-1977 figures) of the Graduate School of Education and the Divinity School and greater than the cost of all of Harvard's scholarship programs combined except those in the Faculty of Arts and Sciences.[7]

---

[7] Financial Report to the Board of Overseers of Harvard College; Harvard University; July, 1977.

While there are necessarily many judgments in these calculations, the ACSR feels they are a fair representation of informed opinion, and that the estimates are a reasonable reflection of the financial costs and risks of a broad policy of divestiture.

APPENDIX B-2

The Financial Costs of Withdrawal

The Committee has not undertaken a detailed assessment of the costs of withdrawal. However, if the companies with assets in South Africa were to withdraw, there may be a reduction in earnings of uncertain magnitude. The fraction of MOSA companies' total assets that are located in South Africa is less than one percent. Withdrawal would involve the sale of these assets and their possible relocation elsewhere. Based on the judgment of analysts and those with experience, the Committee expects that the impact both on earnings and on market prices of the companies' securities would almost certainly be slight and that the effect on Harvard's portfolio and income would likely be negligible.

On the other hand, the Committee is aware that the cost to a company of withdrawal and the cost of Harvard's support of resolutions for withdrawal may not be the same. Where Harvard's support of resolutions regarding withdrawal results in an inadequate company response, the University will face a choice of options as to how to proceed. If the course chosen were to be divestiture, it would bring into operation, with respect to that company, the types of costs described in Appendix B-1 above. The dollar amount of these costs could be small or large depending on the number and character of the companies involved and the proportion they represent of Harvard's total investment opportunities.

APPENDIX C

This appendix presents further background information supporting the position of complete economic withdrawal. Complete economic withdrawal would remove the vested interest of the United States in the continuation of apartheid. "Profitable investment and trade is dependent upon a stable economic and political environment. When that environment is distrubed by radical change which questions basic assumptions about how goods and services are produced and distributed in a society, the capacity to create profits from investment and trade is greatly reduced."[1] American corporations in South Africa provide a crucial political contribution to apartheid. Investment and trade create a material bond between American corporations and South Africa, providing the white minority regime with protection from meaningful economic sanctions. As the South African Financial Gazette noted,[2]

> Through trade, South Africa can offer formidable resistance to any attempts to isolate her from the rest of the world. Foreign trade is in fact the means for ensuring a continued role for South Africa in world politics.

South African whites depend on these economic links with the western world to insure that the west cannot afford to abandon the South African status quo.

Apartheid in South Africa is so entrenched that it could not be affected by progressive policies on the part of the corporations. Recently, Prime Minister Vorster has made it clear that businessmen in South Africa should keep their hands off politics.

United States technology has significantly supported the South African government. Through their business operations, United States companies contribute to a "for whites only" prosperity, make the internal security and military forces more effective, and help develop South Africa's strategic self-sufficiency. There can be no question that the transfer of sophisticated technology, particularly in the strategic sector of electronics, automobiles and petroleum, has greatly strengthened the apartheid system and must inevitably continue to do so as long as American corporations remain in South Africa. The managing director of Burroughs South Africa, C. Cotton, said in March 1971,[3]

> We're entirely dependent on the U.S. The economy would grind to a halt without access to the computer technology of the West.

There is scant indication that companies could ever be persuaded to adopt progressive policies, and the few efforts in that direction have been thwarted by the government. Of over 250 U.S. companies in South Africa, Ford was the only one to recognize a black trade union; the government responded by jailing the leader of the union. After that alarming indication of government policy, it is even more unlikely that other companies will risk possible retaliation and implement progressive measures. Furthermore, companies have not even adopted measures which do not carry as great a risk to their employees. The results of the Calkins letter were extremely disappointing. In all cases, black workers were concentrated at the lowest levels. This casts doubt on the sincerity of the companies' claims to be dedicated to improving the situation; the claims have been heard for a long time, but results are not forthcoming.

American firms cannot produce basic social change in South Africa by liberalizing their employment practices. It is important to remember that American firms employ less than one percent of the black workforce, and that only a small fraction of that one percent would ever be moved into skilled positions. While future growth may intensify the need for skilled labor and require the placement of a relatively small number of blacks into positions formerly reserved for whites, the unskilled and semi-skilled nature of the black workforce will not be substantially altered. Corporate policy would not alleviate the shocking conditions under which the vast majority of South African blacks are currently living. In certain areas, infant mortality runs as high as 50%, largely from malnutrition and disease, although the country is wealthy enough to feed these people, and medical science is capable of curing and preventing many of these communicable diseases.[4]

Those now calling for an end to American and other foreign investments in South Africa reflect the entire range of that country's black political activity. The African National Congress of South Africa, the Pan-Africanist Congress, the Christian Institute, the South African Congress of Trade Unions (whose leaders are currently in jail), and every organization of the Black Consciousness Movement, including the Black People's Congress, the South

African Students' Organization, and the South African Students' Movement, are among the organizations which are calling for withdrawal, as are individuals such as Bantustan Chief Gatsha Buthelezi, who after the October 1977 crackdown stated his support for an "economic boycott" of South Africa, the late Chief Luthuli, president of the African National Congress and a Nobel Peace Prize laureate, the late Steve Biko, and Beyers Naude. These people have spoken out despite the fact that South African advocates of withdrawal can be charged under the Terrorism and Suppression of Communism Acts with crimes punishable by a minimum of five years' imprisonment and a maximum sentence of death. Moreover, the call for withdrawal reflects a general feeling among South African blacks, not merely the views of the political leaders. Even in Soweto, where the benefits of American business are felt most directly, this is overwhelmingly the case, as the Washington Post found by interviewing workers on the streets. In an article entitled "In Soweto, a Feeling Carter Should Have Done More'," the Post quotes, among others, a former high school principal, T.W. Khambule:[5]

> "It really doesn't help," he said of American investment. "It stabilizes the government. When the economy is good the rulers can enforce their repressive laws."

Following the bannings in October, 1977, a black "helper" working in a U.S. company in Johannesburg supported withdrawal in spite of the fact that withdrawal would mean the loss of his job. He supported an economic boycott because it would "force whites to choose between racial privilege and prosperity."[6]

Outside of South Africa, many other groups have called for the withdrawal of American foreign investment from South Africa, including the Black Caucus of the United States Senate, the Organization of African Unity, the International Confederation of Free Trade Unions, the AFL-CIO and the United Nations. Senator Dick Clark, Chairman of the Subcommittee on African Affairs of the Senate Committee on Foreign Relations has also urged withdrawal.

Proponents of withdrawal do not necessarily advocate withdrawal as a means to bring about violent revolution in South Africa. Withdrawal of foreign investment could weaken the present South African government enough to force it to make such concessions as majority rule. Continued U.S. investment only strengthens the government, which has shown itself to be fully opposed to racial equality.

Sources:

1. Litvak, L., DeGrasse, R., McTigue, K., "United States Investment in South Africa," South Africa Catalyst Project, U.P. Press, p. 49.

2. Africa Research Group, Race to Power. New YOrk, Anchor Press, 1974, p. 119.

3. Litvak, op. cit., p. 39.

4. United Nations Center Against Apartheid, no. 34, 1976.

5. Kerney, J. Regan, "In Soweto, a Feeling 'Carter Should Have Done More'" in The Washington Post, Octo. 29, 1977.

6. Litvak, op. cit., p. 61.

United Nations Center Against Apartheid, 1975, 1976, 1977.

Seidman, Ann, and Seidman, Neva, South Africa and U.S. Multinational Corporations